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FOR IMMEDIATE RELEASE:	**CONTACT:**	**RICHARD MILLS**
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U.S. Requests WTO Panel to Rule on Mexican Telecom Restrictions

WASHINGTON - The United States today asked the World Trade Organization (WTO) for a dispute settlement panel to rule on a U.S. complaint that Mexico has failed to open its cross-border telecommunications market as required under WTO rules. In requesting a trade panel, the United States listed a series of Mexican government measures designed to stifle price competition in cross-border telecom services.

"Mexico's international telecommunications market remains dominated by a single company with a government mandate to set high wholesale prices for calls to Mexico and prevent competitive alternatives," said U.S. Trade Representative Robert B. Zoellick. "The result is steep telephone charges that penalize American and Mexican families seeking to maintain cross-border ties, raise the price of doing business across the border, and burden U.S. telecom firms with unnecessary costs. These antiquated restrictions are out of step with the movement towards open telecom markets around the world and with Mexico's own efforts to make its economy more competitive."

Over the past several years, the United States has sought to work with the Mexican government to resolve U.S. concerns regarding Mexico's restrictive telecom rules. In August 2000, after informal discussions failed to produce results, the United States initiated formal WTO consultations with Mexico. In November 2000, the United States asked the WTO to convene a dispute settlement panel to hear U.S. complaints. In light of the progress subsequently achieved on some aspects of Mexico's domestic telecom market, the U.S. decided not to pursue that request.

However, Mexico has still not begun to dismantle its anti-competitive cross-border telecommunications regime. As a result, U.S. carriers must pay inflated charges and are foreclosed from using alternative channels for carrying their calls to Mexico. Today's new request for a panel is focused on that unresolved issue, reflecting lack of progress in that area.

"We have tried to settle our differences with the Government of Mexico and we still hope to do so," added Ambassador Zoellick. "However, the lack of action by appropriate Mexican authorities leaves us no choice but to pursue our rights through the WTO."

Background

Mexican telecom rules preclude Mexican carriers from competing with each other to carry calls into Mexico. Under the rules – which create a price-fixing mechanism led by Mexico's dominant phone company – all Mexican carriers charge their U.S. counterparts the same high wholesale rate for connecting their calls to Mexico.

The current wholesale rate – which the Mexican government has approved – is 13.5 cents per minute. By contrast, the government approved wholesale rates Mexican carriers charge each other for comparable calls within Mexico amount to no more than 4 cents per minute. Wholesale rates represent the most important portion of the final charge that consumers bear - therefore, artificially high wholesale rates at the front end of the cost chain drive up consumer costs at the end.

About 80 percent of the cross-border calls between the United States and Mexico originate in the United States, where rates are much less costly due to price competition between U.S. carriers. Given the extraordinary volume of calls from the United States to Mexico (second only to calls to Canada), U.S. carriers estimate that the high international rate costs U.S. customers about half a billion dollars in excess payments a year. Those payments are the single largest factor in keeping retail rates for calls to Mexico significantly higher than rates to more competitive markets.

In February 1997, Mexico joined 69 other WTO members in committing to open its cross-border telecom market to competition beginning in February 1998. Mexico's commitments are embodied in an addendum to the "General Agreement on Trade in Services"(GATS) negotiated to complete work on international rules for telecom trade that remained unfinished when the Uruguay Round ended in 1994. Unlike the WTO, the 1992 North American Free Trade Agreement does not set rules for trade in basic telecom services.

This panel request is expected to be brought up at the March meeting of the WTO's dispute settlement body. Today's request describes four grounds on which Mexico's international telecom rules contravene Mexico's commitments under the GATS. These include Mexico's failure to:

- ensure that U.S. carriers can connect their calls to Mexico on reasonable rates, terms, and conditions;

- ensure that U.S. firms have reasonable and non-discriminatory access to and use of Mexico's telecom network;

- provide "national treatment" to U.S.-owned telecom "resellers;" and

- prevent Mexico's dominant carrier from engaging in anti-competitive practices.

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